

**Foreign Direct Investment and Firm Level Productivity in Kenyan  
Manufacturing: A Panel Data Analysis**

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**Abstract:** This paper uses panel data to examine the effects of foreign presence on firm level productivity in the Kenyan manufacturing industry employing “traditional” and “recent” methodologies using the production function framework. The results show that foreign firms dominated in virtually all the economic activities, including productivity performance. The analysis of productivity determinants using a technologically profound approach produced a statistically significant role played by foreign presence on firm level productivity, thus supporting the occurrence of spillovers. The paper argues that the use of productivity based methodologies largely masks the nature, actual processes and mechanisms through which spillovers occur. The paper, therefore, advocates a “paradigm shift” in the spillover analysis techniques and recommends a broader approach with particular emphasis on technological innovations which takes into consideration learning, capability building and innovation.